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UNCLAS WARSAW 000924

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E.O. 12958: N/A
TAGS: EFIN ECON PREL PL
SUBJECT: Polish Government Declares Half a Loaf on Public Finance Reform a Victory

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¶1. (U) On February 1, the Council of Ministers issued a communiqu claiming that provisions implemented to date of the government's fiscal reform plan (the "Hausner plan," named after its chief architect, Economy Minister Jerzy Hausner) would save 25.4 billion Zloty ($8.2 billion) between 2004-7. The release broke the 25 billion Zloty figure into 9.5 billion Zloty from a combination of spending cuts and increased revenues, and 14.4 billion Zloty realized from changes to social policies. This total compares to the plan's initial estimate of 54.6 billion Zloty in savings ($13.6 billion at the original exchange rate).

¶2. (U) In public comments, Minister Hausner said he was pleased that, through the end of 2004, 50% of the plan has been completed. He expects another 25% to be completed in ¶2005. Hausner estimated that, ultimately, the plan could generate 40 billion Zloty ($12.9 billion) in savings between 2004-2007. The GOP has submitted several more reform provisions included in the plan to the Sejm, including bills to reform: the disabled assistance fund (PFRON), which could save 500 million Zloty ($160 million) and; a bill to centralize public procurement agencies and close some advisory bodies, which could save 100 million Zloty ($32 million). After extensive discussion with the Sejm over the last year, the GOP is finalizing amendments to draft reforms of the agricultural social security fund (KRUS), which could save one billion Zloty ($320 million). The GOP hopes to submit a new version of the package to the Sejm at the end of February.

¶3. (SBU) Based on recent Sejm votes against key reform plans, however, most analysts see no real chance that any further provisions of the Hausner plan will be passed. The Sejm recently rejected draft bills which would have increased social insurance contributions for entrepreneurs and changed regulations on combining additional earnings with pensions or retirement benefits (lowering the benefit threshold at which pensioners are discouraged from working on the market as a means of generating employment). These bills would have produced up to one billion Zloty ($320 million) through a combination of increased revenues or savings in expenditure. The GOP has resubmitted a revised version of these bills to meet objections raised in the Sejm, under which the combined savings would be 800 million Zloty.

¶4. (SBU) Comment: On February 1, Hausner told the Ambassador that the government finds itself in a difficult position. As a minority government, it is not clear which parties in parliament will support its reform program. The opposition parties clearly want the government to stay in office, but do not seem willing to support any significant changes or reforms. Given the increasingly fluid political situation in advance of general elections, it is unlikely that parliament will tackle any significant new reforms which could prove unpopular with voters. There is widespread press speculation that Hausner himself may soon resign from government, particularly now that he has resigned from the governing SLD party. As commentators begin to write obituaries for the Hausner plan, it is useful to remember that the GOP's financial situation looked much more grim when it was first proposed 18 months ago. Many analysts at the time doubted that even half would be achieved. While GOP finances are better now, there is still a long way to go to put them on a more sustainable track to meet Maastricht criteria. The opposition parties may avoid having to confront difficult public finance reform issues before the election, but will have to deal with them in the next parliament.

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